



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

**DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
Mail Stop 1112, PO Box 12307
Ogden, UT 84412**

DATE OF THIS NOTICE:

CONTACT PERSON/ID NUMBER:

CONTACT TELEPHONE NUMBERS:

Toll Free 1-877-767-2501

RESPONSE DUE DATE:

EMPLOYER IDENTIFICATION NUMBER:
FORM:

Dear Sir or Madam:

We are conducting a compliance check of your organization as part of our ongoing efforts to increase voluntary compliance by tax-exempt organizations. We are asking you to answer questions concerning your post-issuance bond compliance and record retention practices because you reported an outstanding balance of tax-exempt financing on your 2005 Form 990, *Return of Organization Exempt From Income Tax*.

General Information

Qualified 501(c)(3) bonds are tax-exempt qualified private activity bonds issued by a state or local government, the proceeds of which are used by a 501(c)(3) charitable organization in furtherance of its exempt purpose. The tax-exempt status of qualified 501(c)(3) bonds remains throughout the life of the bonds if all applicable federal tax laws are satisfied while the bonds are outstanding. Various requirements apply under the Internal Revenue Code and Income Tax Regulations including information filing and other requirements related to issuance, the proper and timely use of bond-financed property, and arbitrage yield restriction and rebate requirements.

To comply with these and any other applicable federal tax requirements, issuers and 501(c)(3) charitable organizations borrowing the bond proceeds must ensure that the rules are met at the time the bonds are issued and throughout the term of the bonds. Generally, this includes the continued maintenance of records sufficient to establish compliance with all applicable federal tax requirements until three years after the final maturity of the bonds. Also, continued maintenance of records related to periods before the bonds are issued and after the bonds mature is oftentimes necessary, particularly in instances involving reimbursements and refunds.

What You Need To Do

Please complete the enclosed Form 13907, *Tax-Exempt Bond Financings Compliance Check Questionnaire*, and follow the instructions below for sending the questionnaire to us.

How To Send the Information to Us

Attach a copy of this letter to the front of the requested information, and send the information to us, by the due date shown above, using one of the following methods:

- Mail your reply to the address shown in the heading of this letter.
- Fax your reply to 801-620-2132.
- Email your reply or questions to tege.eo.compliance@irs.gov and indicate "TEB" on the subject line. Be sure to include your name, telephone number and the best time to reach you; we will reply to your questions by telephone. This email address is for replies or questions related to this letter only, we cannot respond to other information or questions.

Failure to use the above mailing address, fax number or email address may result in processing delays. If you fail to reply by the above date, we may forward your case for examination consideration.

In the spaces below, please provide an officer's name, title, telephone number and most convenient time for us to call should we need to speak with someone regarding your organization.

Name of officer: _____ Time: _____
Title: _____ Telephone Number: () _____

More Information

Through our website at www.irs.gov/bonds, you can access tax-exempt bond-related materials including Publication 4077, *Tax-Exempt Bonds for 501(c)(3) Charitable Organizations*, which provides an overview of the federal tax rules and filing requirements applicable to qualified 501(c)(3) bonds. You can find answers to frequently asked questions about record retention requirements under "Exempt Bond FAQ's." In addition, you will find an article, *After the Bonds are Issued: Then What?*, intended to assist treasurers, comptrollers, chief financial officers and other responsible officials in developing policies, procedures and systems to ensure that your bonds remain tax-exempt.

We have enclosed Publication 4386, *Compliance Checks*, which answers some frequently asked questions about compliance checks.

If you have any questions about this letter, you can contact the person named in the heading or email your questions to the address shown under **How To Send the Information to Us**.

To receive Exempt Organization's *EO Update*, a regular email newsletter with information for tax-exempt organizations and tax practitioners who represent them, go to www.irs.gov/eo and click on "EO Newsletter."

Thank you for your cooperation.

Sincerely,

Clifford J. Gannett
Director, Tax Exempt Bonds

Marsha A. Ramirez
Director, EO Examinations

Enclosure(s):
Form 13907
Publication 4386

Compliance Checks

Examination, Audit or Compliance Check?

Tax Exempt and Government Entities Division

- **What is an examination? What is an audit?**

An examination is a review of an organization's books and records. In addition an examination may involve the questioning of third parties to determine the organization's tax liabilities. Another term for an examination is an audit.

- **What is a compliance check?**

A compliance check is a review conducted by the IRS to determine the following:

- Whether an organization is adhering to recordkeeping and information reporting requirements.
- Whether an organization's activities are consistent with their stated tax-exempt purpose.

It is a review of information and forms that we require organizations to file or maintain - for example, Forms 990, 990-T, 940, 941, W-2, 1099, or W-4. The check is a tool to help educate organizations about their reporting requirements and to increase voluntary compliance.

The 990 series of forms are used by tax-exempt organizations, including charities, private foundations and other nonprofit organizations, to provide information required by section 6033 of the Internal Revenue Code, which includes information about their programs and activities. Information on these returns is generally disclosable to the public as provided by law.

It should be noted a compliance check is not an examination; it does not directly relate to determining a tax liability for any particular period.

- **What occurs during a compliance check?**

At the beginning of a compliance check, we will inform the officer or director that the review is a compliance check and not an examination. We will not ask to examine any books and records or ask questions regarding tax liabilities. We may ask the organization whether they understand or have questions about filing obligations for required forms. We may also ask questions about an organization's activities. If, during a compliance check, we decide an examination is appropriate, we will notify the organization that we are commencing an examination before asking questions related to tax liability.

- **Is there a penalty for refusing to submit to a compliance check?**

No. The officer or director may refuse to participate in a compliance check without penalty. However, we have the option of opening a formal examination, whether or not the organization agrees to participate in a compliance check.

- **How often can the IRS do compliance checks?**

Because a compliance check only reviews whether an organization is adhering to record keeping and information reporting requirements and/or whether an organization's activities are consistent with its stated tax-exempt purpose and is not an examination, it is possible to have more than one compliance check for a tax year if facts and circumstances warrant.

